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SUBJECT: EUR DAS BRYZA,S NOVEMBER 16 MEETING WITH ARMENIAN
PRESIDENT SARGSIAN

Classified By: Amb. Marie L. Yovanovitch, reasons 1.4 (b,d)

¶1. (C) Summary: EUR DAS Matthew Bryza, Ambassador, and EUR/CARC Regional Conflicts Advisor met with President Serzh Sargsian and presidential advisor Vigen Sargsian over dinner on November 16. On the economy, Sargsian predicted a severe contraction in the real economy in the first quarter of 2009 and asked for the U.S. to weigh in with the IMF to help secure a standby loan for Armenia. Sargsian also noted MSS funding would provide critical budgetary support during the impending crisis. On political reform, Sargsian refused to acknowledge any real problems with political detainees/prisoners and insisted the judicial system would remedy whatever problems existed. On Nagorno-Karabakh, he agreed that a recent November 2 meeting with Azerbaijani President Aliyev in Moscow had been positive, but mentioned the possibility of a referendum on the Basic Principles should the presidents reach an agreement on the framework for a settlement. Finally, on Turkey-Armenia relations, Sargsian indicated that the Armenian and Turkish Foreign Ministers were making progress on a joint protocol, and that the two FM's would meet in Istanbul and again in Helsinki in coming weeks to try to finalize an agreement on the normalization of relations. End Summary.

Economic Crisis in Armenia Looming

¶2. (C) Over dinner with EUR DAS Mathew Bryza, Ambassador, and EUR/CARC Regional Conflicts Advisor, President Sargsian said he expected the world financial crisis to impact Armenia in the first quarter of 2009, when the real economy takes a significant hit as a result of the tightening financial sector. Sargsian noted that the Armenian financial system had thus far weathered the initial impact of the global financial storm reasonably well, but that the inevitable consequences of declining exports, reduced demand, and possibly dramatically reduced remittances from Russia (now totaling about one billion USD annually) would cause a sharp decline in jobs and production. Credit was already drying up, and Armenia needed IMF help rather urgently, the President opined. Unfortunately, the American director of the IMF Board had been unwilling to grant Armenia loans until its economic indicators declined. Sargsian noted that by the time the indicators declined, the loan would be too late to stem the damage to the real economy.

MCC Funding and Domestic Political Reform

¶3. (C) Sargsian transitioned from discussing the impending economic contraction to underscoring the importance to Armenia of continued MCC assistance. Presidential advisor Vigen Sargsian noted that the recent MCC "scorecard" had given Armenia high marks and that he hoped this meant MCC funding would continue. The Ambassador pushed back on this assertion, saying that the scorecard had not been all positive, and that it would behoove the GOAM to focus on improving some of the most important categories, such as "ruling justly." The President responded that reforms could not be pushed too fast, and that there was no way to achieve an instantaneous solution to the deficiencies in the political system. Former President Levon Ter-Petrossian (LTP) had been elected with 84 percent of the vote, but after pushing reforms too fast people took to the street within weeks of the election, proving that even a supposedly "strong"

mandate could not inure the political system against societal resistance. We need to solve our problems in a gradual manner," the President opined.

14. (C) Bryza raised the issue of jailed former Foreign Minister Alexander Arzumanyan (whose AmCit wife Bryza met with), arguing that such cases of "political" detainees raised questions about the impartiality of the judicial process. Sargsian replied that it was imperative to allow the legal process to work on its own; "these people" had tried to change the government by force, and it was impossible to shirk justice and simply release those who were now protesting most loudly. The Ambassador noted that the process outlined by the President could take years and could damage Armenia's political development and international reputation. She wondered whether there was a political solution, such as an amnesty. A visibly irritated Sargsian dismissed this possibility and noted that if Armenia does not respect human rights, the European Court of Human Rights should be the arbiter. Sargsian promised that even if the ECHR ruled against the government, Armenia would respect the verdict. The GOAM had already let out many detainees with suspended sentences, but it cannot simply release everyone.

15. (C) Bryza next raised the issue of Radio Liberty, telling Sargsian that Radio Liberty was monitoring RL's broadcasts to ensure they were not consistently biased against the government. Sargsian replied that the choice of a prominent LTP supporter as head of the Yerevan office was intended as a personal affront to him, and asked with exasperation how their broadcasts could possibly be fair. Bryza replied that he appreciated the President's view, and if the journalist in question was acting unprofessionally, then the USG would weigh in with RL's headquarters.

Iranian Arms Transfers

16. (S) Looking uncomfortable, Sargsian raised the topic of illegal arms transfers to Iran by telling Bryza that the experts promised by the U.S. had not yet arrived to look into the issue with their Armenian counterparts, as had been suggested by Secretary Rice. The Ambassador noted that the Embassy would be in touch with the President on this issue.

Nagorno-Karabakh

17. (C) On Nagorno-Karabakh (NK), Bryza underscored the successful meetings the Minsk Group Co-Chairs had had with the NK de facto authorities over the weekend, but noted his concern over the incursion by an Azerbaijani serviceman along the Line of Contact the previous day while the Co-Chairs were physically present in NK. Sargsian asked rhetorically how it was possible for provocations from the Azerbaijani side to occur on the LOC without the express approval of President Aliyev. Sargsian said he could understand how one drunk soldier might venture across the LOC, but not an entire diversionary group. Nevertheless, Sargsian declined to pronounce on the possible causes of the incident, such as whether it had been organized in Baku or was simply the result of a decision by a local commander trying to fulfil his mandate. Bryza asked Sargsian if he could agree to a proposed confidence-building measure whereby the Armenian and Azerbaijani Foreign Ministers would pledge at the OSCE Ministerial in Helsinki to pull back snipers from the LOC. Sargsian said he approved of the idea, but only if agreed by all three sides (i.e. including the de facto NK authorities).

18. (C) Moving to the issue of the Minsk process, Sargsian noted that the Turks were in no way involved in the negotiations and nixed the idea of the Turks hosting a trilateral meeting on NK. Presidential foreign policy advisor Davitoglu was naive to think he could float the concept of "dual use" of the Lachin corridor at the suggestion of Azerbaijani DFM Araz Azimov when in fact this concept had been discarded long ago. Raising this issue as a potential deal maker only made Davitoglu look foolish, according to Sargsian.

19. (C) The President confirmed that his talks in Moscow with Azerbaijani President Ilham Aliyev had gone well, and that they

were building nascent trust. If we trust each other, then we can move forward, Sargsian opined. He also expressed his satisfaction with the Basic Principles being discussed within the Minsk Group, but noted that the Madrid document proposed in November 2007 still had several lacunae that needed to be filled. When asked by Bryza about his earlier suggestion to the Co-Chairs that the Basic Principles be put to a referendum, Sargsian noted that this was simply a sign that he took the proposal seriously and wanted his constituents to be able to endorse the framework for a settlement. However, for now it was incumbent on the two Presidents and their FMs to move slowly and methodically through the issues. Nothing should be rushed, Sargsian explained.

Armenia-Turkey relations

¶10. (C) On the issue of Armenia-Turkey discussions on normalizing relations, Sargsian said that FM Nalbandian would meet with Turkish FM Babacan at the December 4-5 OSCE Ministerial Council meeting in Helsinki to work out a final protocol for the approval of the two presidents. "We risked a lot on this opening," Sargsian explained, "And we hope to see the fruits of our labor." Responding to a question from Bryza about possible linkage with NK, Sargsian noted the Turks had only made passing references to NK in the talks and had never even so much as suggested that the resolution of the NK conflict would be a precondition for normalizing relations. Bryza noted Turkish President Gul had told him that mending Turkish-Armenian relations would spur the normalization of Armenia-Azerbaijan relations by catalyzing a resolution of NK. Sargsian expressed some skepticism but acknowledged that a positive mood on Armenia-Turkey relations could also spill over and positively impact the NK conflict resolution process.

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